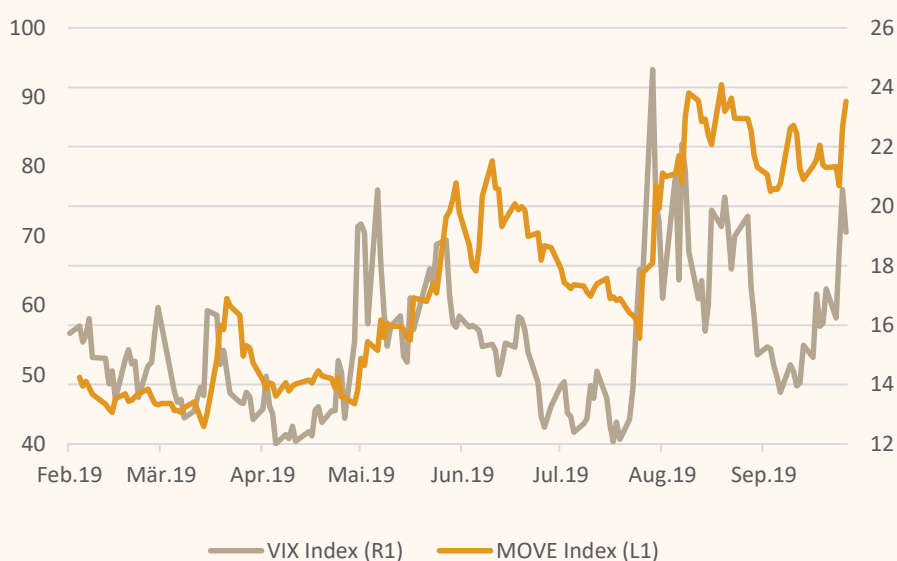


### Key Economic Figures/Events of the Week

- The week saw a series of disappointing economic data raising volatility on the markets and weighing on investors' risk appetite. In the US, the ISM manufacturing PMI for September showed a decline from 49.1 to 47.8 points, contrary to analysts' expectations. Export orders fell to 41, the lowest level in 10 years. The decline is driven by ongoing trade disputes. As long as consumption and employment remain robust, the fears of an upcoming recession are exaggerated. However, we see now a stronger case for a further 25 bp easing at the next Fed meeting on 29-30 October. Market expectations of an upcoming interest rate cut probability have increased from 40% to 75%, following the announcement of ISM manufacturing data on Tuesday, 1 October.
- The US Treasuries' volatility has surpassed the stock market's volatility, as implied by a widely watched gauge of volatility of US Treasuries - Merrill Option Volatility Estimate (MOVE), which estimates the implied volatility of the US Treasuries in the next months, based on derivatives' prices, and the VIX Volatility Index, which is the uncertainty measure for the stock market equivalent.

VIX Index vs. MOVE Index



Source: CBOE, Bloomberg, Merrill Lynch

- The EU data remains gloomy, the eurozone HIS Markit Manufacturing PMI for September fell to 45.7 from 47.0 in August, with the German industry showing the worst figure, falling from 43.5 to 41.7 points in September.
- After a 15-year long dispute, the WTO granted the US the right to impose tariffs on \$7.5 bn-worth of imports from the EU, due to the harm caused by the illegal EU subsidies to Airbus. The tariffs may take effect in 8-months' time, the Trump administration being allowed to constantly revise the list of targeted goods, which will increase trade-related uncertainty and put pressure on the already fragile global growth outlook. Imposing tariffs will be a drag on both American und EU economies, and we believe the parties will try to negotiate a favourable settlement.
- Oil prices have reversed the hikes that followed the drone attack on Saudi Arabian facilities. The Saudi Crown Prince calmed the markets by saying that he wants to achieve a resolution of the conflict with Iran through talks, acknowledging that "a full-blown war with Iran will have catastrophic consequences for the world economy". The global slowdown fears continue to exercise downward pressure on oil prices, which currently stand at \$ 58 per barrel (Brent), as per Thursday closing.

### Weekly Investment Insights

- Inflation has decelerated in Turkey more than expected at 9.3% for September, down from 15% in August, due to positive global interest environment effects on the lira. This may determine President Erdogan to demand further rate cuts, even if the Turkish Central Bank governor recently alluded that the case for further easing this year is limited, after the rate was already cut by 750 bp since April. Still, the news was positive for the Turkish bonds that we hold in our portfolios.
- Fitch has recently upgraded the credit rating of Veon Ltd. (BB+/Ba2/BBB-), the Russian telecommunication company, to BBB- from BB+, assigning it a stable outlook. The credit rating agency cited its stable leverage at about 2x and solid operating performance on some key markets. While Russia remains the central market, the company achieved significant diversification, being now present in several emerging markets with high growth potential in Europe, Asia and Africa. We already own VEONs bonds and continue to hold them in our portfolios.

### Strategy

We continue participating in attractive primary offerings. We received an allocation in the new 5.5-year USD-denominated notes of Veon Holdings (BB+/BBB-), at 4% YTM. We also acquired USD-denominated 5-year notes by Celtic Resources Holdings DAC (Ba2/BB), a subsidiary of the Russian gold-mining company Nordgold, at 4.125% yield to maturity. NordGold currently holds assets in Russia, Kazakhstan, Burkina Faso, Guinea. We are positive about its credit outlook and growth prospects.

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## We hope you find this information useful and will be glad to answer your questions

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